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SUBJECT: EU DAIRY FARMERS SEEK TO REVERSE REFORMS

¶1. (SBU) SUMMARY. EU dairy farmer protests are rapidly escalating into a widening milk delivery strike. The crisis in the EU dairy industry is due to decreased demand as a consequence of the economic crisis. Production of dairy products in the EU has been regulated/managed/protected since the mid 1980's and farmers economically hurt by the recent reduction in market prices. This has dramatically increased pressure on MS politicians and the EC to propose new aid measures. On September 17, 2009, Commissioner Fischer-Boel presented a dairy sector road map to the European Parliament in Strasbourg that remained generally in line with the EC dairy market situation report from July 22. New is a proposed change to the superlevy rules, effectively allowing the removal of dairy quota from the market through buy-back, as well as a proposal to give the EC emergency power for faster market interference. However, the proposal should not increase export subsidies, nor increase dairy intervention prices, nor reverse the "soft landing" of the dairy quota agreed in the 2008 Health Check. In response to a French proposal backed by Austria, Belgium, Ireland, Slovakia and Poland, an extraordinary informal meeting of Agriculture Ministers is scheduled for October 5, 2009 to discuss the dairy situation. Fischer-Boel is likely to present the road map to the informal meeting at which no formal proposal will be made. It is probable that she will make a formal proposal reflecting the road map at the Agriculture Council scheduled for October 19.

Milk Strikes Encouraged By Milk Producer Organizations

¶2. (SBU) Walloon dairy farmers in Belgium especially have rapidly joined a milk strike, which has been called by the European Milk Board. On September 16, 2009, this has culminated in farmers spraying 3 million liters (790,000 gallons) of milk on fields in southern Belgium. In reality, the volume of milk sprayed out was closer to 6 million liters as farmers from Flanders/Belgium, The Netherlands, Germany and Luxembourg joined a crowd of 2000 protestors. It is estimated that the current number of participants in the milk producers strike is 40,000 and the number is rapidly increasing EU-wide.

European Commission Taking Action

¶3. (SBU) In January 2009, the Commission re-introduced export subsidies for dairy products. On January 1, 2009, the Private Storage aid was made available for butter, in advance of the opening of intervention storage from March 1, 2009 on. Steps to increase domestic consumption concentrated on relaxing the rules for the School Milk scheme, as well as widening its product scope.

¶4. (SBU) As a consequence of farmer protests, political pressure also is rapidly increasing on the EU institutions to respond. The Commission [DG Agri] published a dairy market situation report on

July 22, 2009, which suggested new dairy support measures like additional dairy promotion, the use of superlevy money for funding early retirements, providing additional aid to dairy farmers at EU Member State (MS) level through a temporary increase in de minimis aid and under Article 68 for Rural Development aid, as well as examining of potential anti-competitive practices in the food supply chain.

15. (SBU) At the September 7, 2009 EU Agricultural Council meeting to discuss the EC situation report, 16 MS (Belgium, Bulgaria, Germany, Estonia, Ireland, France, Latvia, Lithuania, Luxembourg, Hungary, Austria, Portugal, Romania, Slovenia, Slovakia and Finland) submitted a Franco-German initiated note to the Commission calling for higher intervention prices and higher export subsidies among other demands. At the September 13-15, 2009 Informal Meeting of Agriculture and Fisheries Ministers of the EU in Vaxjo, Sweden, support for a new Franco-German 'declaration' on dairy increased to 18 MS as Spain and the Czech Republic joined the support for the note. French Farm Minister Bruno Lemaire told reporters that he also hoped to persuade Poland to support the motion on Monday, September 21. Poland has recently also expressed its support bringing the total back to 19.

16. (SBU) The new chairman of the European Parliament Ag Committee Paolo De Castro, in an interview on September 9, 2009, had also voiced support for helping EU dairy farmers without becoming more protectionist or hurting developing countries.

17. (SBU) Until now Agricultural Commissioner Marian Fischer-Boel has stuck to the view that any new support measures should be in line with the Health Check agreement on the "soft landing" of dairy quota in 2015, but this position is now coming under heavy attack from the widely backed Franco-German initiative. On September 17, 2009, the Commission made a proposal, which Fischer-Boel presented

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to the European Parliament in Strasbourg. It still sticks with the EC position from the July report. The new main feature is still to temporarily increase de minimis aid to 15,000 from 7,500, but it offers a new mechanism for MS to contribute to a solution to bring supplies in line with demand by buying quota back into each nation's reserve, which would effectively increase the impact of superlevies [on individual farmers] for overshooting production quota. New also is the proposal to bring the dairy sector under the coverage of Article 186 of the Single Common Market Organization (CMO), which gives the EC emergency power to take quick action to support the dairy market without having to go through the Council approval procedure.

Next Steps To Address Dairy Farmer Unrest

18. (SBU) FAS/USEU prediction: Rapidly escalating dairy farmer protests culminating in a widening milk delivery strike are forcing the European Commission and MS Ministers to take some action. However, the 19 MS support for the Franco-German note is not rock solid as many MS have expressed reservations with specific aspects in it, toning down the demands. In particular, the focus of the EC on MS aid through increased de minimis or Article 68 Rural Development aid induces a fear among several MS of a 'renationalization' of the dairy regime.

19. (SBU) The new EC proposal will be submitted to a Special Committee on Agriculture (SCA) for final approval by the Council in October 2009. The increased superlevies collectable at individual farm level could then be used to fund retirement schemes. These measures would be voluntary on a MS by MS basis. However, it is significant that the proposal states that "Making a U-turn on decisions taken in the Health Check is not an option, and is something the European Council asked us explicitly not to do". Therefore, the proposal will not contain measures reversing the "soft landing" of the dairy quota system as agreed in the 2008 Health Check agreement, nor should it provide for higher export subsidies breaching the EU's WTO commitments, nor increased intervention prices and other temporary aid, for which no extra budgetary provisions could be garnered from MS under the current economic slowdown. MURRAY